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INDUSTRIAL AND TRADE POLICY REFORMS IN INDIA

April, 1996

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IRIS-India Working Paper No. 13

This publication was made possible through support provided by the U.S. Agency for International **Development in India, under Contract No. ANE-0015 B 13 1019-00 to the Center on Institutional Reform and the Informal Sector (IRIS).**

The views and analyses in the paper do not necessarily reflect the official position of the IRIS Center or the U.S.A.I.D.

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Summary

This paper presents an overview of the steps taken by the Government of India, since 1991, to liberalize the country's trade and industrial policies. The author finds that the reorientation of India's industrial and trade policy regimes, since the balance of payments crisis in 1991, have had the effect of significantly raising the growth rate of GDP from 1 percent per annum to over 5 percent per year by 1994. Foreign exchange reserves increased to over \$15 billion from \$1.2 billion over the same three year period, while inflation was halved from a peak of 17% in August 1991. Exports have responded to the liberalized environment, growing in dollar terms by 21% by 1994. Finally, India has seen a growth in both foreign direct investment and foreign portfolio investment.

Despite domestic deregulation and delicensing in the industrial sector, industrial growth in India has been slower than expected. The author concludes that a higher and sustainable path towards industrial growth requires an increase in both public and private investment. Resistance by established industry to the prospect of increased competition, the poor fiscal position of the government and some of the major public sector enterprises and problems in the government's exit policy, it is concluded, are the major impediments to future reforms in the industrial sector.

The past three years have **seen some** fundamental economic reforms in the industrial and trade policy regime in India. About the same time that China set out on a historic path of economic reforms in the late seventies, some observers of the Indian economy both within the government and outside were developing **serious** misgivings about the effectiveness of the industrial and trade policy instruments in achieving **the targets** set by our planners and policy makers'. But, unlike China, in India it took over a decade to develop the resolve for **change** and that too after a severe balance of payments crisis in **1991**.

Some major aspects of the policy regime, i.e., its extreme inward orientation, the dominance of the public sector, **and the extensive** domestic regulation had all contributed *in* good measure to the high cost industrial structure that had developed in India over time. **Labour** laws which provided little flexibility in hiring **and** firing and the competition among the numerous trade unions with their different political affiliations further added to the cost pressures.

It was not **surprising** then that in spite of the impressive increases in the saving and investment rates in the **economy** (these rates had more than doubled between 1950 and 1980 as shown in Table 1), the growth rate of the economy remained **stagnant** throughout the period. The **downward** slide of the growth of GDP from 4.1 per **cent** per annum in the fifties to 3.8 per cent per annum in the sixties and 3.3 per cent per annum in the

seventies is a witness to how the gains on the resource mobilisation front were eaten away by the losses on the productivity front. The erosion of competitiveness was also reflected in a secular decline in India's share of world exports from a small enough 2 per cent in 1950 to less than 0.5 per cent in 1980 (Chart 1).

Unlike China, however, India in the eighties opted for a slow correction on an experimental basis for a few sectors and that too within the confines of a deeply inward oriented regime. Several policy changes were made to mitigate the rigours of the control regime. Direct taxes were lowered; private sector was given a larger scope for participation in the growth process; market forces were allowed to play a somewhat larger role in encouraging better utilisation of investments that had already been made; and licensing controls on foreign trade and investment were liberalised gradually. But the very high degree of protection from foreign competition continued throughout this period and the anti-export bias of the trade regime was sought to be offset by increasing the subsidies for exports.

The reorientation of the industrial and trade policy regime had the effect of ~~of--significantly,~~ raising the growth rate of GDP to 5.6 per cent per annum in the eighties compared with 3.3 per cent in the seventies. Growth of value added in industry accelerated from 4.8 per cent per annum in the seventies to over 7 percent per annum in the eighties (Table 1). **This** was mainly on account of productivity gains. Total factor productivity growth

in Indian manufacturing responded very well to the policy reorientation of the eighties. After a long-term trend decline of 0.5 per cent per annum in the sixties and the seventies, total factor productivity grew at a rate of 2.8 per cent per annum in the eighties'. But the sustainability of the better growth performance was being put to test by the deteriorating macro-economic environment. This was largely a reflection of the growing fiscal profligacy of the Government of India during the eighties.

The Gulf war of 1990 and the political instability at the turn of the decade further contributed towards the collapse of international confidence in the Indian economy and the result was the balance of payments crisis of 1991. Inflation was rising, industrial production was declining, foreign exchange reserves at \$1 billion were at their lowest level ever, and the possibility of international default was a very real one. The crisis helped to focus the mind on the need for widespread economic reforms directed at fiscal stabilisation as well as micro-level changes including industrial and trade policy reforms.

One advantage of being a latecomer is that you can learn from others' mistakes. Indeed, for India in 1991 there were lessons to be learnt from other economies. The East Asian miracle was there for all to see. China had already completed a decade of economic reforms through opening up to foreign trade and investment, and with splendid results. GDP of China grew by

close to 10 per cent per annum between 1979 and 1992. The economies of Eastern Europe were also well on their way to market **orientation** and globalisation. Above all, the consequences of inaction could also be seen in the disintegration of the Soviet Union. It underscored the urgency of economic reforms if India were to avert similar disaster.

If international **examples** were many, India's own experience with deregulation in the eighties provided further inspiration for the reforms. Nevertheless, during the almost three years since June 1991, economic reforms in India have been fast by the standards that we in India are used to, but slow by international standards. Perhaps this is inevitable in a democracy with strong entrenched interests favouring the continuation of the old regime. But the direction has been firmly set and a consensus is emerging in favour of change.

1. Trade and industrial policy-- reforms

Industrial and trade policy reforms of the nineties are designed to improve the productivity performance of Indian industry by attempting to inject more competition from within the economy as well as from outside. The objective is to strengthen the growth capability of the economy in the medium run **and help Indian industry in the process of becoming internationally competitive.**

(i) Trade Policy Reforms

Trade policy reforms have been at the centre of the New

Economic Policies of the nineties. Recognising that exporting within the shackles of an import substitution regime will not be possible, a process of dismantling this regime began in earnest three years ago. For the first time the policy makers have attempted to integrate the Indian economy with the world economy by doing away with the complex system of import licensing and making an open commitment to lower the tariff rates on imports in a phased manner to bring them in line with those prevailing in other developing economies.

In a major initiative towards convertibility of the Indian rupee, import licensing has been done away with for most goods other than consumer goods. The bureaucratic delays, inefficiencies and corruption possibilities associated with the licensing regime were eliminated in one broad sweep of this initiative. For consumer goods, however, the restrictive regime of import licensing remains more or less intact and is combined with very high tariffs.

The customs duty reduction has followed a consistent pattern along the lines indicated by the Chelliah Committee's Report (1992)'. In 1991, the peak rate of customs duty exceeded 200 per cent. Even capital goods imports were subject to tariff rates of around 100 per cent which was much higher than the range of 5 to 15 per cent prevailing in most other developing economies. This had a cascading effect on the industrial cost structure in India.

With the most recent tariff reductions in the budget for 1994-95, the maximum tariff rate has been lowered to 65 per cent.

The government has not been deterred by the revenue shortfalls in the budget for 1993-94 from pursuing the course of tariff reforms. The import-weighted average tariff rate on the intermediate goods is around 30 per cent and on capital goods around 38 per cent. These are still higher than in most other developing economies, but much lower than three years ago. The budget for 1994-95 has also taken some major corrective action to remove the anomalies of an inverted tariff structure facing the indigenous capital goods industry and imposed countervailing duties on imported capital goods to ensure a level playing field to the domestic producers.

The gradual removal of the anti-export bias through dismantling the import substitution regime has been combined with some positive measures to promote exports. This includes tax exemption on earnings from exports and provision of concessional finance for exports. In particular, greater thrust has been provided to exports from agriculture and labour-intensive sectors. The negative list for exports has been significantly pruned. As an added incentive, export-oriented units (EOU's) in agriculture and allied sectors have been allowed to sell upto 50 per cent of their total output in the domestic market. The minimum export price for basmati rice, a superior variety of rice, has been eliminated and export restrictions on superior quality of rice have been relaxed.

The reduction of subsidies to agriculture in developed countries as part of the implementation of the Uruguay Round should benefit India's emerging exports of agricultural and allied products. The phasing out of the Multi-Fibre Arrangement over 10

years will also make it possible for Indian exporters of garments and textiles to increase their market shares in product categories where they have comparative advantage.

(ii) Industrial Policy Reforms

Domestic deregulation has been a central feature of the industrial policy reforms. These reforms have been designed to provide to the private sector larger scope for participation in the growth process. They are also characterised by a new approach towards foreign investment. Two important areas of weakness relate to exit policy for non-viable nonrevivable sick units and public sector reforms.

(a) Industrial Delicensing

Industrial licensing policy has seen the most dramatic changes. The system of industrial licensing which involved permission from the government of India for new investments as well as capacity expansions has been virtually abolished. The parallel but separate controls over large industrial houses through the Monopolies and Restrictive Trade Practices Act have also been eliminated. The many inefficiencies of this system - carefully documented by Bhagwati and Desai as early as 1970 - are now truly a thing of the past, although barriers to entry at the level of the state governments still remain.

An associated area crying out for reforms is that of reservation in production of certain items for the small scale

sector. Introduced in 1969, reservation policy for the small scale sector has protected small scale units from competition from the large scale units **in the** production of certain items, The winds of **liberalisation** have not touched this aspect of policy so far. This is a serious handicap for certain export-oriented industries such as garments and leather products including leather footwear. In the areas where India has inherent comparative advantage, policies of reservation are holding entrepreneurs back from exploiting the **economies** of scale to exploit opportunities in the world market.

(b) Opening up to Foreign Investment

The opening up to foreign trade has been combined with a policy of opening up to foreign investment. The new policy towards foreign investment goes beyond "permitting" foreign investment to a policy of "actively seeking" and "promoting" foreign investment particularly in the infrastructure sectors.

Direct foreign investment is permitted in virtually every sector of the economy. Majority foreign investment (up to 51 per cent) is freely allowed in most industries. In industries reserved for the small scale sector foreign equity **upto** 24 per cent is permitted. Foreign equity **upto** 100 per cent is encouraged in **export-oriented units** in the power sector, electronics and software technology parks. In other industries also, foreign equity **upto** 100 per cent is permitted on merit. There is no restriction on the use of foreign brand names/trademarks for internal sale. Restrictive provisions earlier applicable to FERA companies, i.e., companies with more than 40 per cent foreign equity, have been

abolished.

A foreign investor has to seek "government approval" in one of two ways. A-simple fast track mechanism or "automatic approval" is available for projects of certain kinds, e.g. **upto** 51 per cent equity in units in Export Processing Zones and also in 100 **per** cent export-oriented units and all foreign technology agreements which meet certain economic parameters. For all other proposals, applications are processed by a high level Foreign Investment Promotion Board (**FIPB**). With its record of speedy clearances, the Board has approved a total volume of foreign equity of **\$** 3 billion in the first two years. All this is in sharp contrast to the approvals of only about \$ 150 million per year only a few years ago. India has joined the Multilateral Investment Guarantee Agency (**MIGA**) and is currently negotiating bilateral investment treaties with several countries.

Even as the attitude and policy towards foreign investment is changing radically, there is still **a** degree of ambivalence when it comes to foreign investment **in** consumer goods. This is very different from the approach followed by China which stresses that **as-** long as foreign investment generates employment, economic activity and exports, the questions of whether it is in **consumer goods or any other industry, high-tech or low-tech, are** of secondary importance. Indeed, in the first seven-eight years of the opening up in China, foreign investors flocked to light consumer goods industries and thereby made significant contribution to the export boom from China. They could do this because the scales of production were geared to the global market.

In India, a major impediment to the emergence of the global scales of production in consumer goods has been the very high protective wall built with a combination of high tariffs and restrictive import licensing, on the one hand, and reservation policy for certain items for the small scale sector, on the other. The protective wall separates the highly profitable domestic market from the world market. Sub-optimal scales of production have therefore been set up to cater to the sheltered domestic market. If foreign investment or for that matter domestic investment is to be encouraged in consumer goods with a global vision, it is extremely important to replace the import licenses and the very high tariff rates by specified moderate rates of tariff on the imports of consumer goods and relax the reservation policy. Only then can India develop a manufacturing base for the export of consumer goods.

(c) Exit Policy

A major lacuna in the reforms of industrial policy is the persistence of the barriers to exit for non-viable sick units. The Board for Industrial and Financial Reconstruction (BIFR) was set up in 1987 to attend to the widespread incidence of industrial sickness in the private sector. It was assigned the task of separating the non-viable sick enterprises from the revivable ones and provide rehabilitation packages for the one set and effective solutions for exit to the other. The fact that the BIFR comes into the picture at a fairly advanced stage of sickness and that its powers are not mandatory have meant that it has not been effective in facilitating the exit of the nonviable sick units

within the existing institutional constraints.

To some extent this reflects the inherent complexity of the issues faced in any attempt at industrial restructuring. The challenge is not only that of overcoming the resistance from organised labour. While this is important, this can be attempted by offering packages of financial compensation and opportunities for training and redeployment of labour which is adversely affected in the process of restructuring. An additional challenge is posed by the rigidities of the institutional framework including the legal system which stands in the way of easier flow of resources from one industry to another. The recently submitted report by the Goswami Committee (1993) has also emphasised the constraining role of the inflexible judicial system.

It is widely recognised now that amendments in the Industrial Disputes Act, the Companies Act and the Urban Land Ceiling Act are vital if the legal framework is to provide the necessary flexibility in moving resources away from the unproductive and economically non-viable sectors to the more vibrant sectors. Amendments in the Companies Act would facilitate mergers of sick companies with healthy ones and also cut short the long drawn process of liquidation of firms. The Companies Act Amendment was in fact introduced in Parliament in 1993, but the government is proposing to submit a new Bill in its place to take account of certain concerns expressed by Indian industry.

The Industrial Disputes Act requires a firm to seek permission from the state government before any retrenchment of

labour and the permission is typically held back. Amendments in the Industrial Disputes Act would allow retrenchment of labour without the rigidities of securing permission from the state government. The Urban Land Ceiling Act is a major constraint in the functioning of the market for land and buildings in urban areas since land in excess of the ceiling cannot be sold without specific government permission which is often not forthcoming. Amendments in this Act will enable nonviable sick firms to sell their real estate to settle the claims due to their creditors and make it easier for them to exit. Once these legislative reforms are undertaken, the BIFR would also be able to function more effectively in helping the process of industrial restructuring.

(d) Public Sector Reforms

The urgency of the reform of public sector enterprises arises from the fact that the government does not have budgetary resources to continue to subsidise the loss-making enterprises. A compelling situation has been created by the inability of the government to continue to subsidise the public sector through budgetary support. The contribution of budgetary support to the plan investment of public enterprises declined from 23.5 per cent in 1991-92 to 13.8 per cent in 1993-94. More and more, public enterprises have to approach the capital market for their resource requirements on the strength of their performance.

As the economic environment is being made more conducive to cost and quality considerations and attempts are being made to foster competition, pressure on performance orientation in the

public sector is mounting and so is the need for reforms. But the resistance from the organised labour and the bureaucracy and pleadings from ideological quarters have stood in the way. As a result, the policy response in the form of public sector reforms by the central government has been slow.

The low if not negative rates of return on the investments made in a large number of public sector enterprises are well known and well documented in a number of official reports'. The profitability of PSU's in terms of gross profits to capital employed actually declined from 12.1 per cent in 1981-82 to 11.4 per cent in 1992-93. The net profitability has fluctuated around 2 per cent in recent years. If petroleum and power sectors are excluded, the net profitability was -0.7 per cent in 1991-92 and virtually nil in 1992-93 (Table 2).

The financial performance of the state public sector undertakings has been much worse. The heavy losses incurred by the state electricity boards (SEB's) alone are estimated to be of the order of Rs 45.3 billion in 1991-92 which amount to 14 per cent of the total anticipated annual plan outlay of all states and union territories. The SEB's have all along failed to realise the 3 per cent statutory rate of return on their assets. This is significant because the resource generation capacity of the SEB's has a direct bearing on their capacity to invest and contribute to the crucial infrastructure needs of the economy.

Much store has been laid by the signing of MoU's (Memoranda of Understanding) between a public enterprise and the

administrative ministry which controls the enterprise. While designed to distance the ministry from the **day-to-day running** of the enterprise, experience has shown that the MoU's have not really worked in providing effective **autonomy** to the public sector enterprises. A change of attitude in the new era of liberalisation may lead to some improvement in results in the **years to come**, but **much more is needed than MoU's** to distance the government from the actual running of the public enterprises.

A policy of "greenfield privatisation" has prompted private industrialists to venture into areas earlier reserved for the public sector, e.g., power, aviation, hydrocarbon development, telecommunications equipment and more recently even specialised telecommunication services (cellular phones). The number of areas exclusively "reserved" for the public sector has been whittled down to just 6 which covers areas such as defence, atomic energy, minerals going into atomic energy, coal and lignite, mineral oils and railway transport. Virtually all other areas have been opened to private investment.

Steps have also been taken towards the marketisation of public enterprises with a view to making these enterprises behave like commercial units. A successful example of corporatisation can be seen in the Mahanagar Telephone Nigam Ltd. (MTNL) in the telecommunications sector. This move raised expectations of more corporatisation, but further action has been slow. The loss making sick public enterprises have also now been brought under the ambit of BIFR. However, this by itself does not hold out much promise as the BIFR is already facing numerous problems dealing

with the sick private sector units.

The government established a National Renewal Fund (NRF) in 1992 to ensure that the cost of restructuring of sick public sector units does not fall too heavily on the workers. This Fund with a corpus of about \$350 million is to provide assistance to cover the cost of retraining and redeployment of labour and also provide compensation to labour affected by industrial restructuring. In fact the Fund has been utilised more for voluntary retirement compensation than for retraining and redeployment. The National Textiles Corporation, a central government undertaking which has the portfolio of 49 sick textile mills taken over by the government at various points of time, has negotiated a package with labour whereby 60,000 workers have already been retrenched. There have also been mergers of a few mills as part of the restructuring exercise. But of late the process has slowed down. There has been little modernisation and even the progress of the voluntary retirement scheme seems to have slowed down.

Privatisation has not really formed part of the strategy of liberalisation in India. The policy of marginal disinvestment of the equity of public enterprises in the last two years has been dominantly governed by the compulsions of financing the fiscal deficits. The whole disinvestment approach is so incremental and so thinly spread that it fails to address the basic issue of how to improve the very low returns on the capital invested in the public sector. It is based on the tall assumption that the induction of private shareholders will alter the corporate culture in these

enterprises and provide them a stronger commercial orientation in response to normal shareholder expectations.

One of the major recommendations of the Rangarajan Committee (1993) which was set up to look into the question of disinvestment of shares in public sector enterprises was for privatisation by divesting upto 74 per cent of the equity of the public sector enterprises which are not in the sectors reserved for the public sector. It is high time that the government acted on this recommendation.

2. Broader Policy Environment

If reforms in the industrial and trade policy regime are designed to shake Indian industry out of its lethargy of functioning in a sheltered sellers' market and make it internationally competitive on cost and quality grounds, then it is extremely important that the gains on competitiveness are not offset by inflationary pressures in the economy,. The stability of the macro-economic environment is crucial for the success of the structural reforms, Indeed the Indian policy makers learnt the hard way when the fiscal profligacy of the eighties resulted in the severe balance of payments crisis in May-June 1991. The New Economic Policies of 1991 were therefore designed with a dual thrust on fiscal stabilisation and structural adjustment.

The fiscal stabilisation programme started very well when

the fiscal deficit **was** brought down from a level of 8.4 per cent of GDP in 1990-91 to 3.9 per cent in 1991-92. This was achieved by cutting down the fertiliser subsidy, eliminating the export subsidy and reducing plan expenditures. In 1992-93, fiscal adjustment was of a much smaller order and that too mainly focussing on plan expenditures rather than subsidies. Fiscal deficit **was** brought down slightly to 5.7 per cent of GDP in that year. But there has been major deterioration in 1993-94. It seems that with a perception that the immediate crisis of the balance of payments is over has come a yearning for the bad old ways on the part of the government. Fiscal deficit in 1993-94 was targeted to be 4.6 per cent of GDP but the revised estimates -show an overshooting by more than 50 per cent so as to bring the deficit to 7.3 per cent. The inflationary consequences of such a course can be very destabilising for the structural reforms and must be avoided at all costs.

If fiscal policies have deviated from the path that was charted out in the New Economic Policies, the exchange rate policy has played a very active and supportive role. The trade policy reforms have been supplemented by a gradual movement towards a unified exchange rate. The exchange rate was initially devalued by 24 per cent in June 1991 while export subsidies were simultaneously abolished. After a brief sojourn with a dual exchange rate system in 1992, the exchange rate was unified in March 1993 and was effectively floated to be a market determined rate. In the budget for 1994-95 the government has announced its intention to make the Indian rupee convertible on current account transactions which is a significant step forward towards the liberalisation of the foreign exchange markets.

The need for an efficient and modern banking' system for effective restructuring of the industrial sector was also **recognised** early enough in the new regime so that the Narasimham Committee (1991) was set up with the purpose of making recommendations for financial sector reforms. The committee underscored the importance of commercial orientation in the functioning of the banking system, deregulation of the interest rate structure and less **pre-emption** of **banking** funds to cover the fiscal deficits of the government if the banking system is to rise to the challenges of servicing a modern industrial sector. In keeping with the Committee's recommendations, a start was made in **several** areas, but the pace was adversely affected by the securities scam of 1992. Capital market reforms also suffered a setback during this period. **Now** that the Joint Parliamentary Committee has submitted its report to the Parliament and the government has also proposed a fresh agenda for reforms in the financial sector there should be more action on financial sector reforms.

A significant recent initiative has been the opening up of the capital market for portfolio investments. Indian companies have been allowed to access international capital markets by **issuing** equity abroad through the mechanism of Global Depository Receipts. Foreign institutional investors managing pension funds or other broad based institutional funds have been allowed to invest directly in the Indian capital **markets**. Favourable tax treatment **has been granted to such investments** to encourage capital inflows through these routes. At the same time the Securities and Exchange Board of India **is** working towards establishing a fair, transparent

and independent regulatory structure to protect the interest of investors who today number 15 million, and to facilitate the efficient functioning of the capital market.

3. Challenges ahead

As India has moved from a crisis management phase to a more durable phase in its reforms, the policy makers have faced tough challenges from several quarters. The performance during the first phase which lasted till about March 1993 was very impressive indeed. Unlike many economies going through structural adjustment with negative growth in the early years, India was able to avoid a major collapse of growth as GDP grew by 1 per cent in the first year and 4 per cent in the second year of the reforms (Table 2). The second phase has proved to be more difficult what with the weakening of the will in the face of the abating of the balance of payments crisis and building of resistance on the part of the vested interests which is only to be expected in a democracy. But the direction is firmly set while the pace has been varied to suit the political exigencies.

The success in managing the balance of payments has been impressive indeed, Foreign exchange reserves have increased from \$1.2 billion in June 1991 to over \$15 billion in March 1994. This has been achieved by strong export performance in 1993-94 and larger private capital inflows as confidence in the new economic policies has grown. Inflation was reduced from a peak of 17 per cent in August 1991 to half that rate within two and a half years. More recently, as the fiscal deficit has gone out of gear, the

inflation rate is **rising** once again and the year 1993-94 has seen inflation of a little over 10 per cent. The containment of the fiscal deficit is the toughest challenge facing the government today. This would call for a number of tough measures including a reduction in subsidies and elimination of wasteful expenditures.

Exports have begun to respond very well to the **new** trade and exchange rate policy regime.. Export performance in the first two years of reforms was severely adversely affected by the collapse of the **former Soviet Union** which had been a major trading partner of India. Exports (measured in- US dollars) declined by 1.5 per cent in 1991-92 and increased by less than 4 per cent in 1992-93 (Table 2). **But** with the effect of this disruption over, the underlying structural transformation is coming to surface. Exports are beginning to respond to the new policies, growing in dollar terms by 21 per cent in the first **eleven months of 1993-94**. The number of companies achieving international quality standards by obtaining certification from ISO 9000 series today stands at over 220 compared with **less than** 5 only three years ago.

With the restoration **of** international confidence has **come** a surge of investor interest in India both for direct foreign investment and portfolio investment. By the end of 1993 India had attracted actual direct **foreign** investment of \$1.3 billion and approvals of over \$4 billion. Compared with direct

foreign investment inflows of the order of \$150 million in 1990-91 and 1991-92, the subsequent two years have seen inflows of \$343 million and \$600 million, respectively (Table 3). As international fund managers are diversifying their portfolios by investing in "emerging capital markets", India has also benefitted from this trend. Inflows from international equity issues by Indian companies in 1993-94 are estimated to be about \$2.5 billion, while institutional investors have invested about \$1.5 billion in the domestic capital markets.

Industrial revival, however, has been slower than expected. A transition to a higher and sustainable growth path requires a revival in investment. This has been slow in coming. Public investment has been low because of severe resource constraints, while private investment has been depressed as the corporate sector is reorienting its investment strategy to the new liberalised economic environment. As is to be expected, there has been some resistance from established industry to the pressure to compete. There is also reluctance to let go of the family control over established companies. There are demands for "level playing field" on the part of those who have seen nothing but great walls of protection all these years. But even they realise that the time for change has come, while the **not-so-**established ones are trying to make use of the new liberal economic environment.

Industrial growth at 2.4 per cent per annum in the nine months April-December of 1993 was only marginally higher than the

growth during the same period of 1992-93 (Table 2). The recession was particularly severe in capital goods (particularly electrical machinery) and sugar. In particular, capital goods production was adversely affected by the paucity of funds in the public sector and certain anomalies in the tariff structure which arose during the process of reforms.

The budget for 1994-93 has explicitly addressed the problems of the capital goods industry including the anomalies in the tariff structure. More generally, the sweeping reform of the indirect tax regime and the growth-orientation of the budget is designed to elicit a strong response from the private sector. The fact that the public sector is in a better position to raise funds should also help in the revival of investment by the public sector enterprises. There are indications that private investment activity is picking up. Sanctions from financial institutions have shown very strong improvement in the last quarter of 1993-94. Industrial Credit and Investment Corporation of India (ICICI) alone showed an increase of 50 per cent in its sanctions to industry during January-March 1994. Disbursements also showed a strong pick up although not as much as the sanctions.

In fact in industries other than capital goods and sugar, there were distinct signs of recovery even during 1993-94 as can be seen from the disaggregated picture in Table 4. When this picture is combined with the more recent indicators on investment intentions, it seems that the mood for wait and watch is turning into a mood for action. There is also reason to believe

that Indian industry *is* developing global vision. The best personnel of companies is being deployed in the export divisions of the companies rather than in the liasion division as in the past. The sharp increase in the number of companies obtaining ISO 9000 series certification for quality standards is another proof of the same phenomenon.

An important factor in the management of the transition to a more liberal economy has been the favourable weather for agricultural growth. If the Gods continue to be on the reformers' side, the next phase will be more manageable than otherwise. But there is no getting away from harsh decisions in the next phase of reforms.

First and foremost, the restoration of macro-economic stability requires that the government gets back to the path of fiscal rectitude . Or else, the resulting inflation will eat into the gains being attempted on productivity front. There is also need for a dispassionate and open debate on the desirability of privatisation. If the government does not have the resources to support or revive loss-making enterprises in areas which are neither strategic nor of social importance such as health, education , rural development and poverty alleviation, and if the enterprises are not in a position to raise resources from the market., should they be allowed to die a slow and agonising death or is privatisation an option ? Is it desirable to privatise such enterprises and use the funds raised thereby to meet the needs of investments in the social sectors ? What role can the

needs of investments in the social sectors ? What role can the state governments play in carrying the reforms to the ground level ? Indeed it is extremely important that the reforms are carried through to the level of the state governments. Bringing about a quiet economic revolution within a democratic framework is the challenge. It is a long haul and India has just begun the journey.

Table

MACRO-ECONOMIC INDICATORS

A: SELECTED GROWTH RATES¹
(per cent per annum)

Year	<u>RealD P</u>		
	Total	Industry	Agriculture
50-51 to 60-61	4.1	6.3	3.0
60-61 to 70-71	3.8	5.0	1.8
70-71 to 80-81	3.3	4.8	2.1
80-81 to 89-90	5.6	7.1	3.2
90-91	4.9	8.3	4.8
91-92	1.1	0.0	-2.0
92-93	4.0	1.9	4.9
² 93-94	3.8	2.4	n.a.

B: SELECTED RATIOS
(per cent of GDP)

Year	Saving	Investment	Current Account BOP	<u>Fiscal Deficit</u> <u>(Centre, States & U.T.)</u>	
				Current	Overall
50-51	10.4	10.2			
60-61	12.7	15.7	-2.4	0.5	na
70-71	15.7	16.6	-1.0	0.3	na
80-81	21.2	22.7	-1.2	0.1	-7.7
89-90	24.0	26.7	-2.8	-3.4	-9.5
90-91	24.0	27.4	-3.3	-4.5	-10.0
91-92	23.1	24.2	-0.9	-3.7	-8.0
92-93	22.3	24.5	-2.1	-2.7	-6.8

¹ Data are for fiscal years. Thus, 1950-51 refers to the period from April 1, 1950 to March 31, 1951.

² April:1993 to December 1993.

Source: Economic Survey, National Accounts and Ministry of Finance.

TABLE 2

RECOVERY FROM CRISIS

	1990-91	1991-92	1992-93	1993-94
	(growth rate)			
GDP	4.9	1.1	4.0	3.8
Industrial production	8.3	0.1	1.9	2.4a
Exports (\$)	9.2	-1.5	3.8	21.4b
Imports (\$)	13.5	-19.4	12.7	0.7b
Prices (WPI)	12.1	13.6	7.0	9.1b
	(per cent of GDP)			
Current Account deficit (BOP)	- 3.3	- 0.9	2.1	0.5
Fiscal Deficit (Central Government)	8.4	5.9	5.7	7.3
Savings	24.0	23.1	22.3	
Investment	27.4	24.2	24.5	
Foreign Exchange Reserves (\$ billion)	2.2	5.6	6.4	15.0
Exchange rate (Rs/\$)	17.9	24.7	29.0	31.4

a April 1993 to December 1993. Industrial growth is 6 per cent per annum if capital goods are excluded.

b April 1993 to January 1994.

Source : Economic Survey 1993-94, Ministry of Finance, Government of India.

TABLE 3

FOREIGN INVESTMENT INFLOWS(in million \$)

	1990-91	1991-92	1992-93	1993-94
<u>Total</u>	<u>165.0</u>	<u>148.0</u>	<u>585.0</u>	<u>4600</u>
Direct Foreign Investment	165.0	148.0	343.5	600
Other Foreign Investment	0.0	0.0	241.5	4000
Foreign Institutional Investors	(0.0)	(0.0)	(1.0)	(1500)
Euro-issues	(0.0)	(0.0)	(240.5)	(2500) ^a

a Estimates based on actual inflow of \$ 2100 million upto
March 4, 1994.

Source : Ministry of Finance, Government of India.

Table

Industrial Recovery : 4 Close Up
(per cent per annum growth)

Industrial Production	April-December	
	1992-93	1993-94
Basic goods	3.3	3.2
Intermediate goods	5.0	10.3
Capital goods	a.7	-6.4
Consumer goods	0.5	2.3
Durables	- 0 . 6	13.5
Nondurables*	0.8	2.6

* excluding sugar.

Source : Central Statistical Organisation, Government of India.

End-notes

1. The first major study to spell out the serious Shortcomings of the policy regime was by Bhagwati and Desai (1970). This was followed by a detail study of the Indian foreign trade regime by Bhagwati and Srinivasan (1975) which reinforced the finding of ineffectiveness of the policy instruments to achieve the set targets of growth and development. Reports of official committees headed by Alexander (1978) and Dagli (1979) conveyed a similar message.

2. For a detailed discussion of the productivity trends in Indian Manufacturing, see Ahluwalia (1991). The updated results are given in Ahluwalia (1992).

3. Chelliah Raja (1992), Chairman Tax Reform Committee, Department of Revenue, Ministry of Finance, Government of India.

4. Annual Reports of the Bureau of Public Enterprises provides the information base for these reports.

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